



Minimum Wage Increases

Under Discussion

Since the 2006 fall elections, there has been renewed interest in the federal minimum wage. It appears that when the new Congress convenes in January 2007 one order of business will be to consider raising the minimum wage.

Recent attempts to increase the federal minimum wage allowed for a phase-in period over a few years. Last fall Congress considered a proposal to raise the minimum wage in three phases: \$5.85 on January 1, 2007, \$6.55 on June 1, 2008, and \$7.25 on June 1, 2009. This minimum wage proposal was part of a larger bill (HR 5970) that included changes to the estate tax and other tax law changes. At the time it could not pass the Senate.

The last increase in the minimum wage was over nine years ago, changing from \$4.75 to \$5.15 on September 1, 1997. Because of inflation, the value of \$5.15 has eroded by about 20 percent.

Another way people evaluate the value of the minimum wage is to compare it with the average wage paid to workers (average hourly earnings of production and non-supervisory workers). In

1998, \$5.15 per hour equaled 40 percent of the average wage. In 2006, the minimum wage equaled about 31 percent of the average wage. If the minimum wage were \$7.25 per hour in 2006 it would have equaled 43 percent of the average wage. In 1950, when the minimum wage was just 75 cents per hour it was 56 percent of the average wage—an all-time high.

Proposals to increase the federal minimum wage always engender a fair amount of controversy. Proponents see an increase as an anti-poverty measure, allowing a full-time minimum wage worker to have an income above the poverty level.

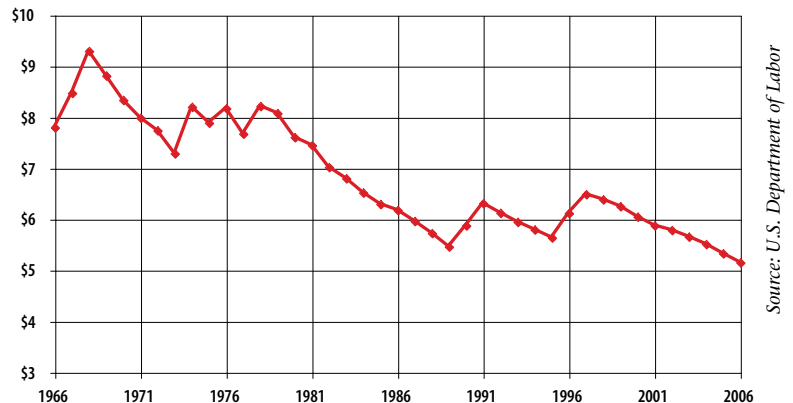
Opponents argue that many minimum wage workers are teenagers or entry-level workers with few skills, who need to break into the workforce and are not primary breadwinners for their households. Opponents contend that because of the increased cost, many jobs for these young and unskilled workers will be eliminated, resulting in higher unemployment and less opportunity. Proponents counter that the job losses that may occur are very small and are outweighed by the positive income effects to low-income households. There are numerous studies and data analyses on either side of these arguments. There is no definitive economic resolution to this debate.

In the absence of federal legislation to increase the minimum wage over the past decade, 29 states have passed increases in the minimum wage above the federal level. This includes six states that made changes to their minimum wage in November's election.

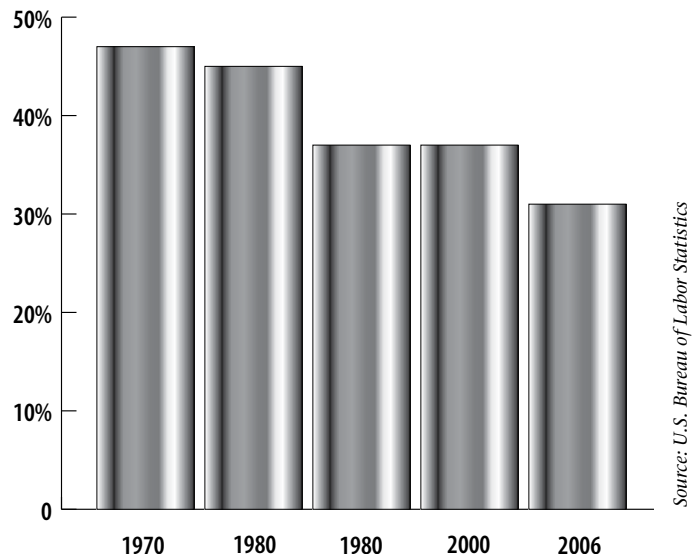
It has been estimated by the Economic Policy Institute, that an increase to \$7.25 would directly benefit 6.6 million people with higher wages, or about 5 percent of the labor force. Another 8.3 million could be indirectly benefited; workers who would be making close to the new minimum wage and may receive wage increases over time as a ripple effect. (1)

Minimum Wage

in Real 2006 Dollars
(inflation adjusted using the consumer price index)



Minimum Wage as a Percent of the Average Wage*



*Average hourly earnings of production and nonsupervisory workers.